



ALLIED GROUP LIMITED

(聯合集團有限公司)

(Incorporated in Hong Kong with limited liability)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR 2002

The Board of Directors ("Directors") of Allied Group Limited ("Company") announces that the audited consolidated results of the Company and its subsidiaries ("Group") for the year ended 31st December, 2002 are as follows:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2002

		2002 HK\$'000	2001 HK\$'000
	Notes		
Turnover	(2)	1,812,277	1,743,774
Other operating income		29,100	38,121
Total income		1,841,377	1,781,895
Cost of sales		(325,394)	(326,541)
Brokerage and commission expenses		(77,702)	(33,273)
Selling expenses		(70,477)	(71,870)
Administrative expenses		(375,428)	(308,274)
Impairment losses and revaluation deficits	(4)	(574,354)	(344,018)
Bad and doubtful debts		(506,115)	(373,280)
Other operating expenses		(122,684)	(76,419)
(Loss) profit from operations	(5)	(210,777)	248,220
Other finance costs	(6)	(72,183)	(111,391)
Amortisation of goodwill		(7,142)	(4,760)
Release of negative goodwill		149,163	68,220
Amortisation of capital reserve		20,412	20,417
Share of results of associates		123,467	123,505
Share of results of jointly controlled entities		(15,932)	51,213
(Loss) profit before taxation		(12,992)	395,424
Taxation	(7)	(71,292)	(95,366)
(Loss) profit after taxation		(84,284)	300,058
Minority interests		(60,364)	(196,621)
(Loss) profit attributable to shareholders		(144,648)	103,437
Dividend		—	—
(Loss) earnings per share	(8)	(4.2) cents	3.0 cents
Basic			
Diluted		N/A	N/A

Notes:

(1) Adoption of revised and new Statements of Standard Accounting Practice

In the current year, the Group has adopted, for the first time, the following revised and new Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants.

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 11 (Revised)	:	Foreign currency translation
SSAP 15 (Revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

Adoption of these SSAPs has no material effect on the results for the current and prior accounting years. Accordingly, no prior year adjustment has been required. The format of presentation of the consolidated cash flow statement has been changed and a consolidated statement of changes in equity has replaced the consolidated statement of recognised gains and losses. Comparative figures have been reclassified to conform with the revised presentation arising from the adoption of these SSAPs.

(2) Turnover

	2002 HK\$'000	2001 HK\$'000
Turnover comprises:		
Interest income on loans and advances to consumer finance customers	892,742	1,010,406
Other interest income	302,368	223,087
Property rental and management services	129,647	123,745
Securities broking	122,749	77,635
Sales of properties	112,883	98,760
Income from Forex, bullion, commodities and futures	79,145	39,195
Securities trading	67,578	80,230
Income from corporate finance and others	58,496	20,594
Dividend income	24,565	49,412
Hotel operating income	20,753	19,452
Sales of goods	1,351	1,258
	1,812,277	1,743,774

(3) Segmental information

Analysis of the Group's businesses segmental information is as follows:

	2002				
	Investment, broking and finance HK\$'000	Consumer finance HK\$'000	Property development and investment HK\$'000	Corporate and other operations HK\$'000	Total HK\$'000
Turnover	665,405	892,742	268,868	43,284	1,870,299
Less: inter-segment turnover	(10,985)	—	(5,585)	(41,452)	(58,022)
	654,420	892,742	263,283	1,832	1,812,277
Profit (loss) from operations	128,162	189,243	(531,806)	3,624	(210,777)
Other finance costs	—	—	—	—	(72,183)
Amortisation of goodwill	—	—	—	—	(7,142)
Release of negative goodwill	—	—	—	—	149,163
Amortisation of capital reserve	—	—	—	—	20,412
Share of results of associates	—	—	—	—	123,467
Share of results of jointly controlled entities	—	—	(15,932)	—	(15,932)
Loss before taxation	—	—	—	—	(12,992)
Taxation	—	—	—	—	(71,292)
Loss after taxation	—	—	—	—	(84,284)
	2001				
	Investment, broking and finance HK\$'000	Consumer finance HK\$'000	Property development and investment HK\$'000	Corporate and other operations HK\$'000	Total HK\$'000
Turnover	523,737	1,010,406	242,994	50,547	1,827,684
Less: inter-segment turnover	(39,085)	—	(1,037)	(43,788)	(83,910)
	484,652	1,010,406	241,957	6,759	1,743,774
Profit (loss) from operations	130,859	382,627	(284,045)	18,779	248,220
Other finance costs	—	—	—	—	(111,391)
Amortisation of goodwill	—	—	—	—	(4,760)
Release of negative goodwill	—	—	—	—	68,220
Amortisation of capital reserve	—	—	—	—	20,417
Share of results of associates	—	—	—	—	123,505
Share of results of jointly controlled entities	298	—	50,915	—	51,213
Profit before taxation	—	—	—	—	395,424
Taxation	—	—	—	—	(95,366)
Profit after taxation	—	—	—	—	300,058

During the year, less than 10% of the operations of the Group in terms of both turnover and results of operations were carried on outside Hong Kong. Accordingly, no geographical segmental information is shown.

(4) Impairment losses and revaluation deficits

	2002 HK\$'000	2001 HK\$'000
Impairment losses and revaluation deficits comprise:		
Impairment losses recognised in respect of:		
Properties held for sale	104,000	500
Properties under development	17,100	—
Non-trading securities	12,306	11,482
Properties under development for sale	—	81,000
	133,406	92,982
Deficits arising on revaluation of investment properties and hotel property	440,948	251,036
	574,354	344,018

(5) (Loss) profit from operations

	2002 HK\$'000	2001 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Depreciation		
— owned assets	37,583	30,342
— assets under a finance lease	470	—
Amortisation of intangible assets	1,366	1,108
Loss arising from default of loan agreement with Millennium Touch Limited (Remark)	10,110	—
and after crediting:		
Profit on disposal of associates	3,725	477
Profit on disposal of subsidiaries	2,020	180
Profit on disposal of non-trading securities	1,123	12,998
Profit on disposal of investment properties	—	7,690

Remark:

On 24th November, 1999, Sun Hung Kai & Co. Limited ("Sun Hung Kai"), a subsidiary of the Company since May 2001, entered into an agreement for the sale of 770,000,000 shares in Tian An China Investments Company Limited ("Tian An") to Millennium Touch Limited ("MT"). These 770,000,000 Tian An shares represented approximately 19.79% of the then issued share capital of Tian An and 9.07% of the issued share capital of Tian An as at 31st December, 2002 and 2001 respectively. MT paid 5% of the purchase price and entered into a loan agreement with Sun Hung Kai group to finance the balance. As security for the loan agreement, MT entered into a share mortgage with Sun Hung Kai group. The share mortgage provided that if there was default under the loan agreement, then Sun Hung Kai group may enforce its security by, inter alia, selling the 770,000,000 Tian An shares to discharge the indebtedness owed by MT to Sun Hung Kai group or foreclosing on the shares. However, Sun Hung Kai has not exercised, and has forgone any entitlement to exercise, any voting rights on these 770,000,000 Tian An shares.

MT has been in default under the loan agreement since 24th November, 2000. There was an unrealised loss of HK\$134,124,000 to Sun Hung Kai group up to 31st December, 2000 by marking to market those 770,000,000 Tian An shares at the closing market price of HK\$0.134 at 31st December, 2000. The closing market price of Tian An shares at 31st December, 2002 fell below HK\$0.134 and an unrealised loss of HK\$10,110,000 (2001: Nil) was accounted for in the current year income statement. The amount due from MT after providing for the unrealised loss of HK\$144,234,000 (2001: HK\$134,124,000) at 31st December, 2002 was HK\$93,070,000, (2001: HK\$103,180,000) and has been included as a term loan under the Group's balance of accounts receivable, deposits and prepayments.

(6) Finance costs

	2002 HK\$'000	2001 HK\$'000
Finance costs included in:		
Cost of sales	21,126	55,465
Other finance costs	72,183	111,391
Total finance costs	93,309	166,856

(7) Taxation

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Hong Kong Profits Tax:		
Current year	44,651	74,311
Overprovision in prior years	(3,524)	(2,534)
	41,127	71,777
Taxation outside Hong Kong	219	295
Deferred taxation	(1,437)	1,275
Share of taxation attributable to associates	22,658	17,669
Share of deferred taxation attributable to associates	4,548	226
Share of taxation attributable to jointly controlled entities	4,177	4,124
	71,292	95,366

Hong Kong Profits Tax is calculated at the rate of 16% on the estimated assessable profits derived from Hong Kong.

Taxation outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

(8) (Loss) earnings per share

The calculation of the basic (loss) earnings per share is based on the loss attributable to shareholders of HK\$144,648,000 (2001: profit of HK\$103,437,000) and on the weighted average number of 3,409,866,308 (2001: 3,421,373,908) shares in issue during the year.

Diluted (loss) earnings per share is not presented as the Company has no potential dilutive ordinary shares during both years.

HIGHLIGHTS

- The turnover of the Group for the year 2002 was approximately HK\$1,812.3 million, which was an increase of 3.9% compared with the year 2001.
- The Group reported a loss attributable to shareholders for the year of approximately HK\$144.6 million, a decrease of 239.8% compared to the corresponding profit in the previous year of approximately HK\$103.4 million. This result is attributable mainly to the impairment losses and revaluation deficits, which are non-cash in nature, arising from the revaluation of Hong Kong properties held by Allied Properties (H.K.) Limited ("Allied Properties") and its subsidiaries of HK\$562.0 million. If these impairment losses and revaluation deficits had not been taken in 2002, the Group's results for the year would have been a profit attributable to shareholders at HK\$268.9 million.
- The continuing downturn in the Hong Kong economy leading to increases in personal bankruptcies during the year adversely affected the profit of United Asia Finance Limited ("UAF"), as well as impacting the results of SHK Finance Limited ("SHK Finance"), which had 27 and 13 branches respectively at the end of 2002. Subsequent to the year end, UAF completed the acquisition of the remaining 50% interest in SHK Finance which it had not already owned resulting in SHK Finance now being a wholly-owned subsidiary of UAF. This acquisition is expected to result in operational savings.
- Sun Hung Kai, the Group's listed subsidiary, reported a 7.0% decrease in profit to HK\$204.9 million. Notwithstanding the difficult economic climate, Sun Hung Kai managed to enlarge its market share and remained profitable in 2002, largely as a result of ongoing efforts to diversify its products and services.
- Allied Properties reported an increase in loss of 109.5% in loss attributable to its shareholders for the year mainly due to further impairment losses and revaluation deficits relating to Hong Kong properties charged to the income statement. Allied Properties' Hong Kong properties are all completed and generating substantial and recurrent rental income or hotel operating income, except for phase two of Ibis North Point, the hotel in Java Road, for which

phase foundation works are continuing.

- Property sales in eastern China contributed significantly to the satisfactory performance of Tian An, a 43.27% owned listed associate of Sun Hung Kai. Tian An posted a turnover and profit attributable to its shareholders of HK\$1,080.3 million and HK\$97.2 million respectively, compared to the corresponding figures of HK\$299.3 million and HK\$102.8 million in 2001. As a nationwide and experienced property developer with an adequate quality landbank in various cities of China, Tian An is confident that with its strengths it will capitalise on the opportunities in the China market in 2003.
- The Directors do not recommend the payment of a final dividend (2001: Nil). It should be noted however that the Group took advantage of the relatively low share prices compared to the net asset value of Allied Properties' shares and increased its shareholding in Allied Properties during the year from 67.74% to 73.58%.

FINANCIAL REVIEW

Acquisition of Additional Interests in Subsidiaries

During the year, the Company and wholly-owned subsidiaries acquired an additional interest in Allied Properties and the shareholding in Allied Properties increased from 67.74% to 73.58% at a total cost of HK\$173.9 million. Allied Properties acquired a further 9.38% interest in Sun Hung Kai during the year at a total cost of HK\$180.9 million, increasing from 52.29% to 61.67% at the end of the year. Subsequent to the year end, Allied Properties' interest in Sun Hung Kai further increased to 74.27% following the completion of the repurchase of shares by Sun Hung Kai as announcement on 27 February, 2003 by Sun Hung Kai while the Group acquired a further interest in Allied Properties to the present level of 74.08%.

Acquisition of an Associate

On 17th December, 2002, the Group acquired a 28.53% shareholding interest in Quality HealthCare Asia Limited for a total consideration of HK\$142.0 million.

Financial Resources, Liquidity and Capital Structure

At 31st December, 2002, the net assets of the Group amounted to HK\$4,076.3 million, representing a decrease of HK\$197.7 million or approximately 4.6% from 2001. The Group maintained a strong cash and bank balance position and had cash and bank balances of approximately HK\$620.5 million as at 31 December 2002 (2001: HK\$655.8 million). Finance costs decreased from HK\$166.9 million in 2001 to HK\$93.3 million in 2002 as a result of reduction of bank loans and lower interest rates. The Group's bank and other borrowings decreased to HK\$1,919.0 million (2001: HK\$3,216.5 million) of which the portion due on demand or within one year decreased to HK\$957.0 million (2001: HK\$2,338.4 million), although the remaining long term portion slightly increased to HK\$962.0 million (2001: HK\$878.1 million). The liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) was 2.52 times, which improved from 1.89 times of the previous year. The Group's gearing ratio (net bank and other borrowings/net assets) substantially decreased to 31.9% (2001: 59.9%).

The Group's capital expenditure, investments and net repayments of bank and other borrowings were primarily funded by the net cash inflow from operating activities.

All of the bank borrowings of the Group are charged at floating interest rates. There was no change in the share capital of the Company during the year. A proposed share repurchase offer to repurchase a maximum of 750,000,000 shares of the Company was announced on 16th January 2003. A shareholders' circular containing details of the share repurchase offer and other related matters is expected to be dispatched shareholders on or before 9th May 2003 and an extraordinary general meeting for the purpose of approving the proposed share repurchase offer and other related matters is expected to be held in June 2003.

Risk of Foreign Exchange Fluctuation

There have been no significant changes in the exposures to foreign exchange risks from those previously outlined in the Company's annual report for 2001.

Contingent Liabilities

There was no material change in the contingent liabilities of the Group compared to the position outlined in the Company's annual report for 2001 except for the following:

- (a) The Group had guarantees of HK\$7.0 million (2001: HK\$222.0 million) in respect of banking and loan facilities utilised by an investee company (2001: a subsidiary of a jointly controlled entity and an investee company).
- (b) Guarantees of the Group in respect of indemnities on banking guarantees made available to a clearing house and regulatory body and others were HK\$6.3 million (2001: HK\$5.3 million).
- (c) On 9th September, 2002, Sun Hung Kai Investment Services Limited ("SHKIS"), an indirect wholly-owned subsidiary of Sun Hung Kai, was served with a writ attaching a statement of claim by Shenzhen Building Materials Group Co. Limited, a Shenzhen P.R.C. registered company, claiming the return of certain shares in Shenzhen International Holdings Limited (worth approximately HK\$37 million) together with interest, costs and damages. The actions taken by SHKIS were based on considered advice from reputable legal counsel, which advice was strictly followed in its implementation. The claim is being strenuously defended and at this stage the management takes the view that no contingency arises for which a provision is required to be made. The case is at an early stage with interlocutory matters only being dealt with.

Pledges of Assets

At 31st December, 2002, certain of the Group's investment properties, hotel property, land and buildings, properties under development, properties under development for sale and properties held for sale with an aggregate carrying value of HK\$2,790.1 million (2001: HK\$3,364.0 million), consumer loan portfolio of nil balance (2001: HK\$487.5 million), listed investments belonging to margin clients with a carrying value of HK\$761.4 million (2001: HK\$3,798.9 million) together with certain securities in respect of listed subsidiaries held by the Company and its subsidiaries, the net book values of which in their respective accounts totalled HK\$3,805.0 million (2001: HK\$3,695.8 million), were pledged to secure loans and general banking facilities to the extent of HK\$4,226.2 million (2001: HK\$4,980.7 million) granted to the Group. Facilities amounting to HK\$1,774.0 million (2001: HK\$2,962.4 million) were utilised at 31st December, 2002.

At 31st December, 2002, certain of the Group's bank deposits of HK\$1.0 million (2001: HK\$1.0 million) were pledged to secure bank guarantees amounting to HK\$ 1.0 million (2001: HK\$1.0 million).

Employees

The total number of staff of the Group at 31st December, 2002 was 2,002 (2001: 1,816). Total staff costs, including Directors' emoluments, amounted to HK\$285.3 million (2001: HK\$274.1 million). The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

BUSINESS OUTLOOK

The short to medium term outlook for the local economy remains uncertain, as Hong Kong is faced with considerable difficulties including the restructuring of the economy and the recent outbreak of atypical pneumonia. Whilst we are hopeful regarding the long term future prospects of the Hong Kong economy, the Group will continue to adopt a cautious and conservative approach for the foreseeable future.

DISCLOSURE OF DETAILED FINANCIAL INFORMATION

The information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") will be published on the website of the Stock Exchange in due course.

By Order of the Board
Allied Group Limited
Sir Gordon Macwhinnie
Chairman

Hong Kong, 10th April, 2003